

Management and Oversight of Defense Agencies

that Provide Commercial-like Goods and Services

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What do we have today?

15 Defense Agencies and 7 DOD Field Activities

Commercial-like

Defense Logistics Agency
Defense Health Program
Defense Commissary Agency
Defense Legal Services Agency
Defense Contract Audit Agency
Defense Security Cooperation Agency
Defense Finance and Accounting Service
Department of Defense Education Education Activity
Defense Information Systems Agency
American Forces Information Service
Defense Contract Management Agency
Office of Economic Adjustment
Defense Security Service

Research and Development

Missile Defense Agency
Defense Advanced Research Projects Agency

Other

Washington Headquarters Services
Defense Prisoner of War / Missing Person Office
Defense Threat Reduction Agency
Defense Human Resources Activity

Intelligence →

National Security Agency
National Imagery and Mapping Agency
Defense Intelligence Agency

Defense Agencies are Large Organizations

- Individual agencies rival or exceed major corporations¹

– Aetna	\$26.8B	Defense Health Program	\$24.9B
– FedEx	\$18.3B	Defense Logistics Agency	\$16.5B
– General Mills	\$6.7B	Defense Commissary Agency	\$6.0B
– T. Rowe Price	\$1.2B	Defense Finance & Acctg Svc	\$1.7B
- Employment of some defense agencies rivals cabinet agencies²

– Dept. of the Treasury	145,000	Defense Health Program	130,000
– Dept. of Commerce	43,000	Defense Logistics Agency	38,000
– Dept. of State	19,390	Defense Commissary Agency	17,000
– Dept. of Education	5,000	Defense Contract Mgmt Agency	4,000

Notes: (1) Revenues; (2) Defense agency employment #s include military and civilians

The Crux of the Problem

- In principle, the market is first choice in providing commercial goods and services
 - Competitive sourcing represents an effort in this direction
- Though preferable, use of market mechanisms is not always possible
 - Wartime surge requirements, security, and other market failures often require in-house production
- The question becomes how to manage the in-house providers

The Problem (contd)

- Some defense agencies have become monopolies within the Department
 - Lack of competitive pressures, especially for those performing commercial functions
 - Concerns with customer responsiveness and efficiency
 - Concerns that oversight is unwieldy and ineffective
- In the absence market mechanisms, DoD has attempted to regulate with varying degrees of success
 - Mechanisms aimed at policy direction, resource management, performance, and customer satisfaction

Current Oversight Mechanisms

- Policy Direction

- Senior Executive Council (SEC)
- OSD PSAs
- Oversight Boards

- Levers on Particular Decisions

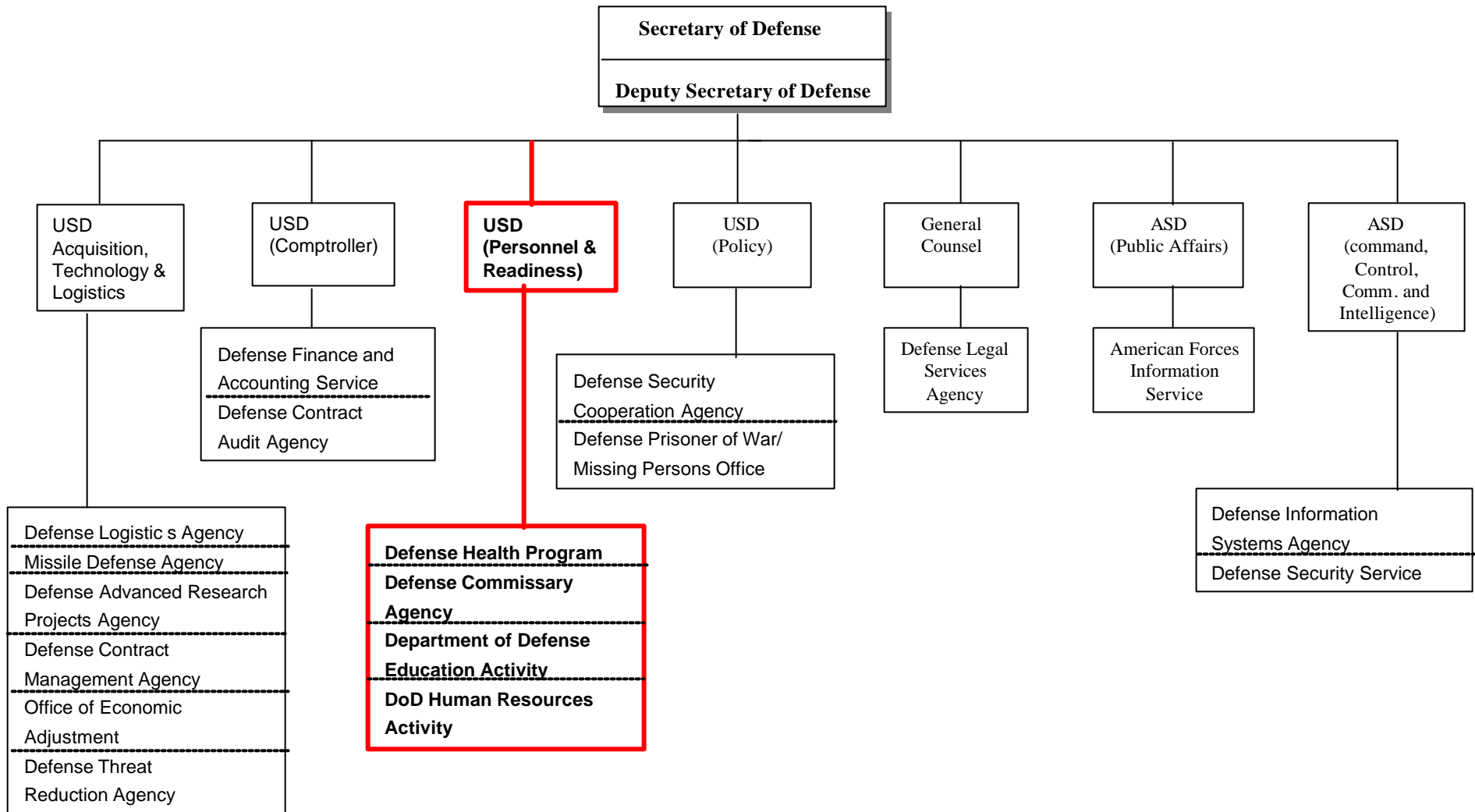
- Oversight Boards
- Business Initiatives Council (BIC)
- POMs -- PSAs
- Program/Budget Review
- Performance Plans

- Performance / Customer Satisfaction Reviews

- OSD Biennial Review
- JCS Combat Support Agency Review Team Assessments (CSARTs)
- Performance Plans

Only SecDef / DepSecDef have full authority to act

Primary Governance Mechanism: OSD Principal Staff Assistants*



* Excludes intelligence agencies and WHS

Inherent Span of Control Problems

Supplemental Oversight Mechanisms

- OSD Principal Staff Assistants
- Program/Budget Review
 - Tends to focus on single agency issues
- JCS Combat Support Agency Review Team Assessments
 - Addresses only a subset of agencies and focuses on CINC support
- OSD biennial review
 - Customer satisfaction focus
- Performance plans
 - Enforcement is weak and there is disparity in successful implementation
- Oversight boards
 - Existence, activity, and effectiveness varies widely

Summary of Main Issues with Agency Management

- Clout required to fix economic problems with agencies difficult to mobilize
 - Authority rests with SecDef / DepSecDef
 - Economic problems with agencies seldom top priority
 - PSAs have mixed record of success
- DoD does not systematically attempt economic management
 - Private sector economic incentives are weak
 - Managing through existing resourcing process is clumsy and crude
 - Capital budgeting process not highly developed
 - Government personnel may lack the skills required
- Inadequate management of Defense Agency functions that cut across service and agency lines
 - No end-to-end processes

OSD management of agencies marked by consensus decision making, short-term decision focus, and “manage to budget”

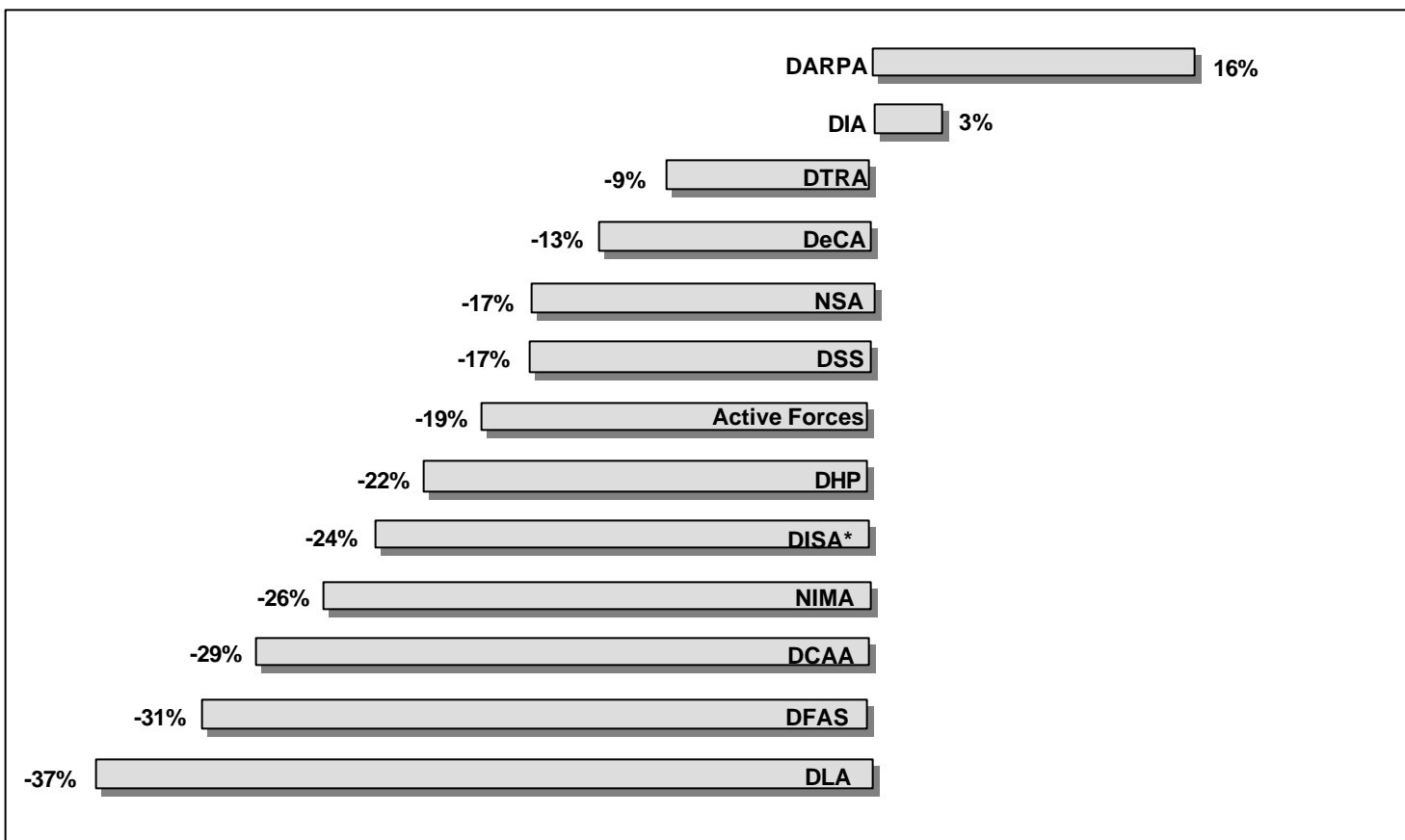
Avenues for Improvement

- Strengthen existing processes
- Establish a “Defense Support Executive” to provide top level business style management and look across agency lines
- Outsourcing/privatization
 - whole agencies or functions on a case-by-case basis
- Establish independent body to devise price/market mechanisms to induce desired behavior and outcomes

Backup

Some Evidence of Efficiencies from Consolidation

Percentage reduction in civilian personnel, FY93 - FY01
DISA civilian personnel reductions are displayed for FY94 to FY01



OSD Principal Staff Assistants (PSA)

- Section 192, Title 10 U.S.C.
 - Assigns “overall supervision” to “ a civilian officer within the office of the Secretary of Defense or to the Chairman of the Joint Chiefs of Staff”*
- As an Under Secretary of Defense, PSAs have other significant duties in addition to agency management
 - Span of control problem
- Mixed record of success

* Defense Intelligence Agency and National Security Agency report to SecDef directly

Program Review

- Provides a means to attempt economic management
 - Especially for commercial-type agencies
- Actual experience is that it does not systematically evaluate defense agencies' programs
 - Level of scrutiny and rigor is not as great as that received by the services
 - No cross-cutting look across agency and/or service lines
- Ad hoc issues often surface during program review with some success, however

Recent Program Review Issues

- DISA (FY00) - 2 Tier pricing
- DSS (FY99) - Funding for Security Investigations
(FY98) - DWCF Implementation
- DLA (FY99) - Aviation supply support
(FY98) - Materiel costs
- DISA (FY98) - Universal services fund

Joint Combat Support Agency Review Team (CSART) Assessments

- Assesses the readiness of designated agencies to support operating forces in the event of war
 - Combat support agencies*
 - Conducted biennially with follow-up review one year later
- Provides information on operational and management issues from CINCs' perspective
- There are concerns that recommendations involving resources are difficult to follow through
 - The Joint Staff and CINCs are not in defense agency resourcing chain

* DIA, NSA, NIMA, DCMA, DLA, DTRA, DISA

OSD Biennial Reviews

- WHS surveys agency's customers for performance and satisfaction
 - Is there a continuing need for agency/activity?
 - Is agency/activity production versus military department most logical?
- 1999* results showed strong continued need for services
 - But there were various levels of customer dissatisfaction for some agencies
- Concerns with Biennial Survey is similar to CSART
 - Not tied to resourcing process
 - Not integrated with other agency assessment mechanisms

* Results for 2001 survey not yet published

Defense Agency Performance Plans¹

- Growing consensus over 1990s that greater oversight was required
- In November 1997 SecDef launched the Defense Reform Initiative (DRI). Among other actions:
 - Created the Defense Management Council (DMC)
 - Required performance plans between agency heads and DMC
 - Defense Agency Task Force was established in January 1998 as steering group that reports to DMC
- Contracts cover 10 DoD agencies and activities
 - Focus on agencies performing business-like functions

Note: (1) Formerly Performance Contracts

Performance Plan Guidelines

- Include measures of:
 - Cost and effectiveness
 - Customer satisfaction and responsiveness
- Require:
 - Benchmarking studies
 - Customer satisfaction surveys
 - Agency-wide reengineering actions
- Must be consistent with POM submissions and agency strategic plans

Focus is on cost and quality, rather than budget

Examples of Performance Plan Metrics

- Cost and effectiveness
 - Decrease the unit cost of military pay transactions from \$7.55 in FY00 to \$7.39 in FY01 (DFAS)
 - Provide backbone system/circuit availability of greater than 99.95% (DISA)
- Customer satisfaction and responsiveness
 - Increase the reliability of non-energy supply materials from 95% in FY00 to 96% in FY01; decrease response time from 18 days in FY00 to 9.3 days in FY01 (DLA)
- Benchmarking
 - Median test scores of DoDEA students will exceed the national median in all subject areas (DoDEA)
 - Compare cost per direct audit hour rate to corresponding rates of national accounting firms each year and report to USD(C) (DCAA)

Improvements to Performance Plan Process and Content

- Harmonize plans and internal management structures
- Initiate cost reduction demonstration projects
- Increase reliance commercial cost management procedures
- Flexible metrics to better address fluctuating workload
 - Strengthen benchmarking commitments
 - Conduct broader customer satisfaction surveys on regular schedules
 - Develop stronger enforcement mechanisms
 - Improve ties to resources
 - Include progress reports in quarterly budget hearings?

Performance Plan/POM Integration

- PA&E is proposing to better tie performance plans and POM/budgets
 - Strengthening the link will allow more effective oversight
 - Designed new programming data submission package that requests financial information by business area/product line rather than by funding or project type
- New package will
 - Improve visibility of major resource issues for defense agencies
 - Specific mechanism for raising these issues awaiting identification of new Administration's programming review process
 - Allow for continuous evaluation of cost-effectiveness of agency business areas and product lines

Oversight Boards

- Boards provide another means of direction on long term strategic issues as well as day-to-day operations
 - Typically consisting customers, oversight organizations, and agency management
 - Examples: Commissary Operating Board, Defense Medical Oversight Council
- Existence, activity, and effectiveness varies
 - 12 of 22 agencies and field activities do not have one
 - Some boards play no more than an advisory role

Agency Issues In Program Review

DISA: Two Tier Pricing

- DISA rates exceeded commercial prices for comparable service in the previous pricing method
 - Included direct cost and military-unique overhead
 - Discouraged local establishments from using DOD infrastructure
- Two Tier pricing implemented in FY 2000 - separates military-unique cost drivers from average cost calculations
 - 1 Telecommunications and computing services priced at rates equal to or below prevailing commercial prices
 - Eliminates economic incentives of using outside providers
 - 2 Military-unique infrastructure costs billed at the service level

Agency Issues In Program Review

DSS: DWCF Implementation

- DSS was included in the Defense Working Capital Fund (DWCF) in Oct 98
- Funds devolved to services and agencies did not cover the full cost of operating DSS in DWCF
 - Overhead costs were unfunded
 - Scope of some investigations increased
- Analysis conducted during the 1998 Program Review supported the finding and recommended adding funds for unfunded scope and DWCF adjustments
 - \$100.9M in over the FYDP

Agency Issues In Program Review

DSS: Backlog of Security Investigations

- Over the past several years, DSS lacked the capacity to keep pace with security clearance investigative requirements
 - DSS personnel reductions, increased investigative requirements, and poorly executed technology solutions have all contributed
- Backlog estimates range from 320K to 500K cases
- A Nov 99 OSD review team made these recommendations
 - Obtain investigative assistance from OPM and private contractors
 - Invest in initiatives to better manage workforce requiring security clearances
- DepSecDef accepted the recommendations in March 2000
- In June 2000, DOD issued a “spend plan” to eliminate backlog by FY03

Agency Issues In Program Review

DLA: Aviation Supply Support

- PA&E research linked inadequate spares to declining aviation readiness in the last ten years
- PA&E organized a three-phased review of aviation material readiness
 - Phase I: DLA-managed aviation consumables (FY 99)
 - Found that the problem was DLA inventory
 - Funding provided to buy aviation spares (\$500M)
 - Phase II: Aviation reparables (FY 00)
 - Identified reparable inventory deficiency and added funding to the services (Navy - \$355M; Air Force - \$609M)
 - Phase III: Repair of aviation reparables (FY 01)
 - Will build on issues raised in phase II and focus aviation component repair business area

Agency Issues In Program Review

DLA Materiel Costs

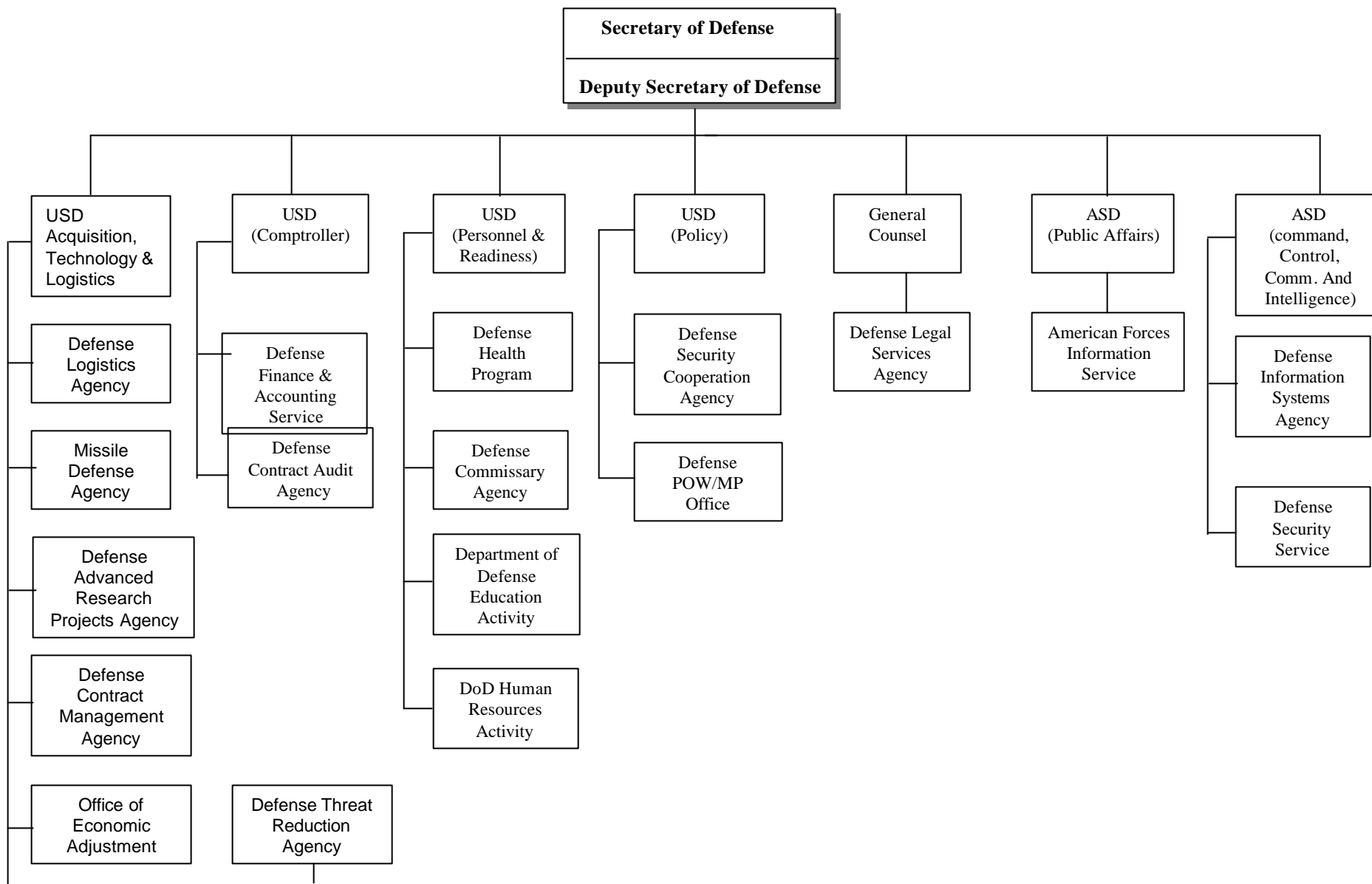
- DLA's actual cost of goods were higher than forecasted cost beginning in 1995
 - DLA's cost reduction initiatives were not fully achieved
 - DLA used internal cash to make up difference
- In 1998, PA&E showed during Program Review that the price DLA charges customers must go up
- DLA prices increased by 5 percent and customer accounts adjusted upwards
 - \$926M over the FYDP (FY00-05)

Agency Issues In Program Review

DFAS IMPAC Card

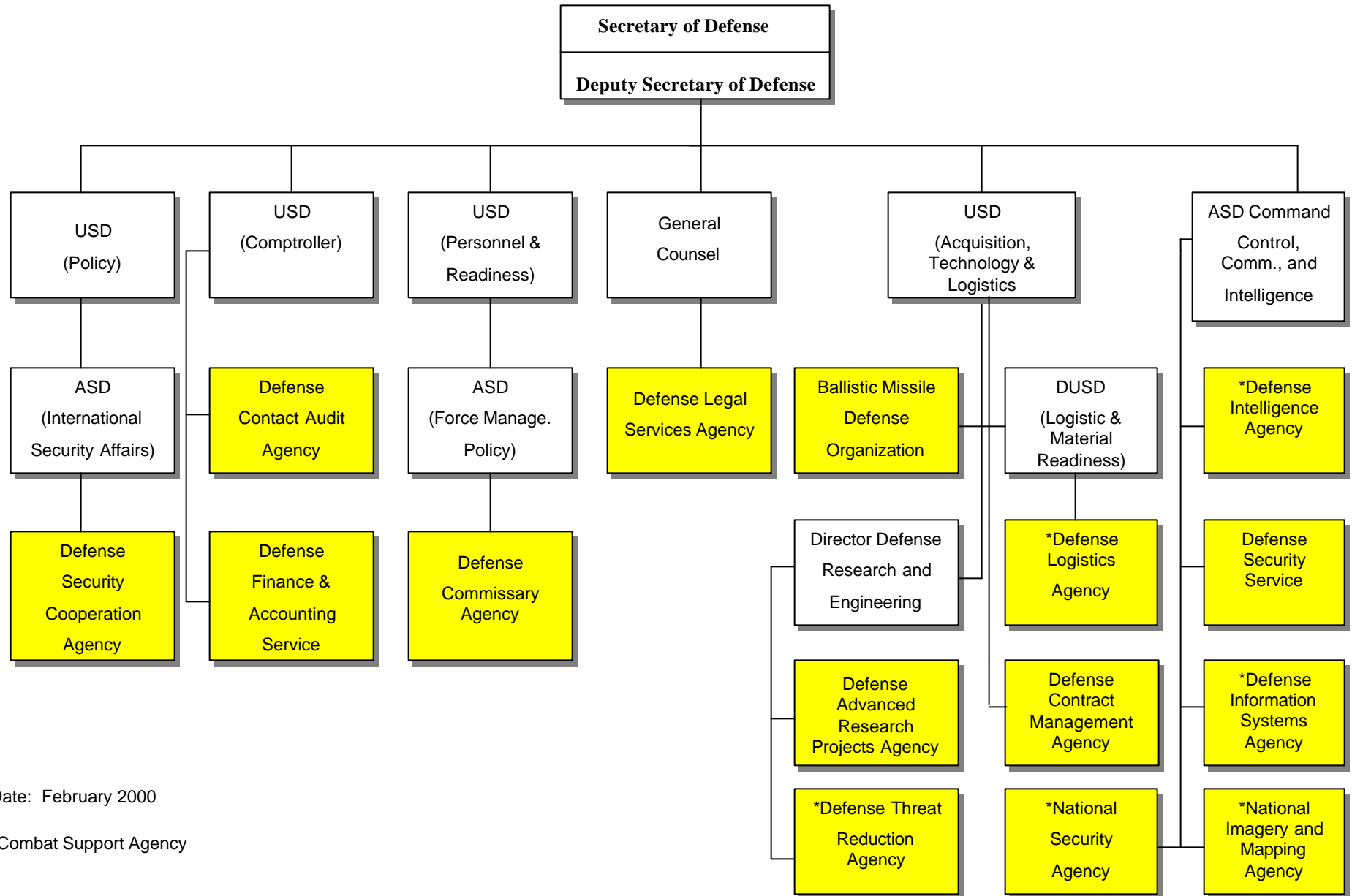
- The IMPAC card was implemented to reduce cost and provide efficiencies
 - Works like a credit card for small purchases
- Realized workload reductions and savings were smaller than expected
- Additional resources were programmed to address problem
 - \$153M over the FYDP (FY00-05)
 - 1900 additional civilian personnel

OSD Principal Staff Assistants and Defense Agencies/Field Activities *



* Excludes intelligence agencies and WHS

Defense Agencies



Date: February 2000

*Combat Support Agency

DoD Field Activities

